

# The Role of Strategic Audit in Improving Industrial Companies' Performance

## (A Field Study in A Number of Companies operating in Basra Province, Iraq)

### Abstract

Strategic audit is a system to identify the extent of implementing the company's strategies , its purposes , and how to reach its goals which needs drawing a strategic plan and seeking to implement this plan in order to achieve the company's message and goals. This study aims to identify the concept of strategic audit and its importance as alternative integrative and comprehensive managerial system that reflects the company's strategic vision and assesses the extent of achieving its goals and works on improving the various aspects of performance ( organizational, economic, social and environmental ) in addition to highlighting the contribution of strategic audit in the efficiency of controlling the performance in order to achieve the company's goals. To achieve the goals of the study, a pilot study was conducted where 130 questionnaires were distributed and 119 of which were valid for analysis with a response rate of (92,97%) which is an acceptable one for generalizing the results on the population of the study that included a group of employees working in industrial companies operating in Basra province in Iraq . Among the important results revealed by the study was that strategic audit contributes in improving economic, organizational, social, and environmental performance of the company.

**Keywords: Strategic Audit, Industrial Companies, Performance, Performance Improvement.**

### 1.Introduction:

Recently, all Iraqi industrial companies ( public and private ones ) face environmental conditions that are characterized by a continuous and fast change which impose a group of challenges and continuous search for what guarantees survival and persistence through all the available methods that contribute in improving the levels of their performance (Alsaegh , 2018 ). In the past, companies' managements were interested in reducing costs as a single standard for performance but these companies became powerless with the multiple goals they seek to achieve in addition to the scarcity , the increased competition and the various desires of clients which imposed the necessity for companies to seek methods to improve their performance and among these methods is the strategic management approach (Renna& Izzo , 2018, Byron et al , 2018 ).

Strategic management represents an intellectual approach that is characterized by modernity and leadership in addition to being characterized with its processes and methods by the ability to increase the competitive capabilities of the company and developing its performance (Shmelev et al , 2018 ). Due to the spread of globalization and openness among companies all over the world, there were new opportunities that led to increase the companies' transactions which in turn led to an

increase in the risks to high levels (Castro, 2018 ). There have been serious mistakes and errors in the strategic management of these companies and the competitive elements did not stop at the limits of business and work tactics but exceeded these limits to the long term strategic competition which gave the strategic information a great importance in preventing risks, identifying risks and evaluating them (Rincon et al , 2018, Festa t al , 2017 ). From this point, there has been a need to utilize audit services to understand the company's strategic status in addition to that of the environment within which this company exists (Hsieh & Lin, 2017 ).

Accounting and financial audit became inadequate and unable to provide with an integrated image of companies' performance in addition to its inability to provide with adequate analysis of specific constraints and problems related to operational processes and the inability to provide with adequate recommendations to treat constrains and problems to assess the company in increasing its control on its internal and external performance on both the short and long terms based on its strategic needs (Attaran & Gunasekaran, 2019, Kumar , 2016 ). This has led to search for an effective tool for evaluating companies' activities ( environmental activities, activities for implementing the strategy, evaluation activities, and control ones) and this is represented by the strategic audit which hasn't attracted interest to date (Michalski et al, 2018 ).

The tools used for performance assessment and evaluation have been limited to the traditional ones related to the financial aspect and neglected the non-financial one (Ghauri , 2018 ). Strategic audit is the most important start point among audit types because financial audit controls expenses and corrects the orientation of imports and rationalizes expenditure, and quality audit ensures the reduction of waste and loss and the optimal use of resources and improve productivity (Fonrouge & Bolzani, 2019), and here comes the role of strategic audit which contributes in evaluating the strategic orientation of companies and ensuring that operational processes are effectively performed as well as the optimal use of resources which reinforces expenses rationalization which in turn contributes in improving the companies' overall performance (Tron et al, 2018). Seidler (2016) sees that strategic audit at present became a main function for financial control systems in large economies countries ( Group of Twenty/ G20) . Pham (2018) indicates that the importance of strategic audit comes from its evaluation for the extent of sources availability and the feasibility of the prepared plans and making the operations and processes controllable , that is, they can be controlled and managed (Kwakyee et al , 2018 ). The importance of the strategic audit topic comes from linking the strategic audit and companies' performance in particular in light of the lack for studies addressing this topic as well as in clarifying the role of strategic audit in improving companies; performance and achieving better performance within them to ensure their persistence and survival and achieving their strategies.

## **2.Literature Review:**

Gilmour ( 1999) conducted a study in Australia which aimed to draw a conceptual frame for strategic audit to improve the performance of supply chain to be used by any company for assessing and evaluating the supply chain activities and elements' performance, the study also aimed to investigate the extent of supply chain elements' integration and the use of technology as an appropriate method for this integration. The results revealed that strategic audit is a useful tool for evaluating the

characteristics of supply chain within company and offers a base for improving and developing the performance of supply chain elements within company. The study of Wutipphan et al (2015) aimed to identify the concept of strategic audit and the importance of the relationship between strategic audit and the success of the auditing process. Five dimensions were determined for strategic audit and included the dynamic learning of auditing, the excellent knowledge, modern audit skills, the continuous education within audit environment and the valuable experiences of auditing . Results indicated a positive relationship between strategic audit and the success of the auditing process .

The study of Hsieh & Lin (2017) investigated the organizational performance of auditing companies that practice strategic audit and the effect of the human resources management strategy and business strategy on audit companies' performance in Taiwan. Results of the study indicated that auditing companies that practice strategic audit have better organizational performance than companies that do not practice it , and results also indicated no effect for business strategy on organizational performance of auditing companies while the strategy of human resources management has an effect on these companies. Grant et al (2017) conducted a study in the health sector – in hospitals namely- to investigate the extent of strategic ability to achieve resources planning within hospitals and to which extent this contributes in reducing patients' stay period . The results indicated that the strategic audit contributes in improving the use of human resources optimally within the organization and contributes in evaluating the organization's performance after implementation as well as assisting in determining the responsible parties for using the resources in inappropriate ways and finally, results indicated that the use of strategic audit led to a great reduction in the average of patients' stay within hospitals.

Alnadi ( 2019 ) investigated the effect of strategic audit on human resources management in light of employees' competency in customs department in Jordan and also the extent of practicing strategic audit by this department. The results indicated that Jordanian department of Customs practices strategic audit at all levels and also indicated an effect for strategic audit on human resources management at several aspects such as policies' auditing, employees' auditing, operations efficiency auditing and employees' job competency. The study of Lin (2019) investigated the contribution of strategic audit in analyzing the process of auditing the supply chain in Chinese industrial companies and increasing the company's market share. Results of the study indicated that strategic audit has contributed in applying and auditing industrial companies' supply chain . The study recommended with the necessity of cooperation between all company's departments and managements as well as auditors to develop the auditing of supply chain activities in the future for Chinese industrial companies and also there should be a professional group of reserve staff . Mohammad ( 2019 ) aimed to identify the importance of strategic audit and strategic planning in public sector companies in Iraq. The results indicated that strategic audit is a control tool for the country's strategies which aims to achieve economic, social and environmental development. The study of Bushuyev et al (2019) aimed to identify the relationship between strategic audit for infrastructure projects and organizational

management strategy due to the problems in these projects and the programs implemented by companies in light of the lack for certainty regarding strategic changes and improvements. The strategic audit adopted various methods to evaluate the ability and the response of projects and the infrastructure system in light of the lack for certainty regarding strategic changes and improvements. Results indicated a relationship between the strategic audit concept for infrastructure projects and organizational management strategy and that strategic audit can be achieved by using a development algorithm for the organization.

The study of Lei and Xu (2019) was conducted on Chinese operating industrial companies to identify the performance of most Chinese companies and to identify the causes of the increased operational expenses with the continuous reduction for the profitability in companies owned by the state despite the increased and developed trend of the market. The results indicated that adopting strategic audit and improving audit quality leads to limit collusion among audit companies and auditors and also leads to improving the way by which companies owned by the state are evaluated as well as forbid companies to maximize their profits and financial fraud.

### **3.Theoretical Framework:**

#### **3.1 The Concept and Importance of Strategic Audit**

##### **3.1.1 The Concept of Strategic Audit:**

Strategic audit is viewed as that kind of auditing which deals with an economic unit in comprehensive perspective during providing the management with an overall and comprehensive report about its strategic status regarding the various aspects in a frame of decision making processes (Mizrahi , 2017), strategic audit also expresses the general introduction of the audit task planning as well as drawing a strategy that is based on internal control or the main tests in collecting data and evidence related to the audit process (Goosen& van , 2017 ). Goosen and Van ( 2017) define strategic audit as the final step in strategic management and while conducting audit processes interest should be focused on following up both the internal and the external factors , assessing actual performance and making the correctional procedures. Strategic audit is one of the vital processes as future success depends on the accuracy in following up today's' actions and continuously evaluating them. Wimonard et al ( 2017) in the other hand, define strategic audit as one of the tools related to the strategic choices at the internal level and the environment at the external level . Bushuyev et al (2019) see strategic audit as a methodological and comprehensive approach for the strategic processes of the company to determine strengths and weaknesses that affect the company, in particular, the causes of the company's failure and the inability to obtain profitability as expected and seeking new fields and dimensions that may be the reason for adding a real value. Strategic audit is also defined by Parkotdee et al (2018) as the approach used by an auditor in planning the audit process to collect and evaluate evidence . Bain and Band ( 2016) define strategic audit as a system to ensure that the company achieves its goals through drawing levels for the target actual performance and then assessing the actual performance and comparing it with the

existed standards to identify the achievement of the strategic goals of performance. For Jumbad and Chel (2018) strategic audit is the approach used by auditor to plan the auditing process to collect and evaluate evidence while Kesimli (2019) sees strategic audit as an independent evaluation for development horizons and is implemented based on information expectations to reflect the auditor's opinion about the possibility of achieving goals.

Wheelen et al (2017) indicate that strategic audit is testing and evaluating the processes of economic units affected by the strategic management process and this audit can be comprehensive for all the aspects of the strategic management process or can be focused on one part of the process such as environmental analysis. Van et al (2017) define strategic audit as a planned approach that includes how to select the methods that should be followed by the auditor to implement the audit task efficiently while Vallabhaneni (2017) in the other hand sees it as a part of higher financial control and is a new methodology to evaluate development horizons of the state and is applied with the aim of making an optimal decision about using and utilizing the state's resources and this kind of audit allows the higher financial control parties to express their opinions regarding the efficiency of achieving the adopted goals and objectives.

### **3.1.2 Goals of Strategic Audit:**

The main goal of strategic audit is to demonstrate the unnecessary practices of the company and to change the unexploited resources and optional activities into a strategy. The goals of the strategic audit are represented by the followings (Wutiphan et al, 2015, Bushuyev et al, 2019):

A- Reviewing the management assumptions regarding the change in many aspects such as the general structures of the company, its general status and the clients' demands.

B- The objective study for the competitive status of the company through determining the best practices and evaluating the company's status.

C- Reevaluating the company's strategy in light of the current performance and evaluating the future vision and determining products, markets and competencies and the ways of development to ensure the company's stability at the long term and to achieve the competitive advantage.

D- Determining the financial and managerial resources that should be exploited and invested to ensure the future success of the company.

### **3.1.3 Importance of Strategic Audit:**

The importance of strategic audit is represented by the following points (Fleming et al, 2018, Baltos et al, 2018, Sompong, 2018) :

A- Ensuring that companies still adding a value through the overall testing for the company's strategic status.

B- Evaluating the extent of the success of activities implemented within the company.

C- Assisting managers to identify and recognize the problems and deficits that can't be identified and solved at the appropriate time.

D- Strategic audit contributes in overcoming the unnecessary practices that in turn lead to achieve costs' abundant and increased supply as well as increasing the company's competency.

E- Strategic audit assists in ensuring that the company's goals, plans and policies do not conflict with its strategic decisions through the testing and evaluation processes for the internal and external environment of the company.

F- Strategic audit contributes in treating the weaknesses of the company and facing the challenges faced by the company and reducing them to the lowest limit.

G- Strategic audit contributes in initially offering the necessary instructions and recommendations to treat the deficits and negative aspects at the appropriate time.

H- Strategic audit assists companies to efficiently supervise and to instruct strategic performance as well as understanding the relationships among the operational and strategic aspects.

I- Strategic audit assists companies to report their strategic performance and achievements following real evidence.

#### **4. Requirements of Strategic Audit:**

To implement the strategic audit process, a group of necessary requirements should be available , these include (Rodríguez et al, 2018, Jeppesen et al , 2017):

A- Offering an efficient managerial information system : to conduct the strategic audit process an efficient managerial information system should be available and should include a group of measures and information characterized by the followings :

- Focus : there should be a focus on the goals the company seeks to achieve.
- Appropriateness: information should be appropriate for the management and assists it in making the appropriate decisions and should be directed to a specific level with appropriate details.
- Balance : not to neglect the incommensurable activities and focusing on the measurable ones.
- Flexibility: the information system should be able to response for the organizational changes.
- Integrity: information should be characterized by inclusiveness and generality to include the whole company's activities and goals.
- Cost / Profitability: the cost of collecting information should be justified by the benefits that can be obtained , that is, benefits should be greater than the costs.

B- Offering specific standards for performance: the availability of such standards is a necessary thing for auditor to be able to give a technical non-neutral opinion.

C- The availability of the qualified staff to conduct the strategic audit process: an auditor should be qualified to achieve the task of strategic audit and the qualification shouldn't be different from those necessary for the financial audit task and in addition , an auditor can resort to experts in strategic matters.

D- Management's conviction of the importance of strategic audit: Management should have a positive reaction to the results of the strategic audit and the

recommendations of the auditor, especially with regard to the aspects that the management gives "sufficient" attention. Hence not achieving their goals ( Trotman & Duncan , 2017). ,

## **5. Strategic Audit Stages :**

Strategic audit has a great importance as a diagnostic tool for problems face companies at all aspects and levels and in offering the appropriate solutions for these problems, and this kind of audit looks with an inclusive and integrative perspective to the whole activities practiced by an economic unit within the company and the strategic audit process undergoes four sequent stages as follows (Aguolu et al , 2018, Lonsdale et al , 2011, Thollander&Palm , 2012) :

**1<sup>st</sup> Stage :** auditing the company's status , and this stage is represented by auditing the company's status and governance as follows :

1- Auditing the company's status : includes tow important items : auditing the financial performance and the strategic status as follows :

A- Financial performance auditing : includes a group of questions about the past and the present performance of the company such as how was the company's performance during the last year regarding the revenue on investment and the market share.

B- Strategic status auditing : represented by a group of questions regarding the actions and business conducted by the company, its activities, and the goals it seeks to achieve as well as the strategies and policies that should be followed to achieve these goals.

2- Auditing the company's governance: represented by two important elements : Board of Directors and senior management (Novitaningrum & Amboningtyas, 2017) (Suklev et al, 2018):

A- Board of directors' audit : includes a group of questions that seek answers for the accurate status of the board of directors , their attitudes , and contributions in the company and if they own the largest share of shares and what are their contributions regarding knowledge, skills, and experiences as well as their participation levels within strategic management.

B- Senior management audit : this kind includes a group of questions that seek answers about individuals at the senior management and what are the main characteristics , skills and experiences they possess as well as if there is the appropriate experience for the international management within the senior management and if it managed to adopt an introduction for strategic management in addition to their level of participation in the strategic management process. In addition, these questions seek the answers for whether if strategic decisions made by the strategic management are made following moral standards and are based on social responsibility and if the senior management members have the appropriate skills to deal with the anticipated future challenges.

## **2<sup>nd</sup> Stage: Auditing the company's internal and external environment.**

A company's success is greatly depends on its study and analysis for the environmental influence factors ( internal or external ) and attempting to benefit from the trends of these factors and the extent of the effect of each one of them (Dagilienė & Klovienė, 2019) :

A- External environment audit: due to the development and complexity at the whole external economic, political, cultural , technological and natural levels , the auditor should deal with all of which separately to obtain answers by which the complexity within this environment can be dealt with (Murmura et al , 2018, Daddi et al , 2018 ).

1- Natural environment audit: auditing all what is out of human control such as natural disasters and which material forces within the natural environment that affect the company and the industries it compete with as well as the current and future natural environmental opportunities and threats .

2- Societal environment auditing: this kind includes several variables that are connected to the economic factors, social and cultural values, the technological developments, the governmental regulations and the study of the effects of these variables on the company and its strategies.

3- Tasks' environment auditing: this type has a great importance that should be taken into account due to its effective elements and variables that directly affect the company's processes. This type of auditing assists in obtaining answers on several questions such as what are the major forces that move the competition within industry and what are the threats of new companies interrering the competition and what is the competition among the current companies in the industry as well as what are the main factors affecting the environment ( clients, competitors, suppliers, , creditors, trade unions, and shareholders).

B- Internal environment auditing: this type offers a competitive advantage that makes the company unique in its business methods and it includes (Sugandini et al, 2018, Taylor et al , 2018 ):

1- Auditing the company's organizational structure: the company's organizational structure depends on the company's goals and the nature of its business and its conditions and the task of this type of auditing is to audit these factors to obtain the appropriate organizational structure for the company's goals and characteristics. The auditing of company's organizational structure offers information about the company's general characteristics , the existence of centralization within the authority of decision making, and is the current company's organizational structure consistent with the company's goals, strategies, policies and programs in addition to identifying the similarities and differences within the company's organizational structure and those of companies at the same industry.

2- Company's culture auditing: a company's culture is among the main elements for the success or failure of companies so the organizational culture of a company should be audited to direct it toward what serves the company's strategy and goals. This type of audit offers information about the status of the company's organizational culture in



relation to the important issues that face the company such as productivity, quality, and keeping abreast with production developments as well as identifying if the company's current culture is consistent with the diversification in employment in terms of their characteristics and experiences (Gamayuni, 2018).

3- Company's resources auditing: The company's resources are one of the most important points to be audited. Resources are the spirit of the company and the secret of its dynamics and resources must be available to activate and activate the capabilities of the company (Puad & Shafii, 2019), and strategic audit should contribute to the audit of several factors such as marketing, finance, research and development, operations and physical distribution, human resources and Information Systems Department (Sri & Solimun, 2019, Chiu et al, 2019).

A- Marketing audit : the aim of auditing the marketing process at the company is to identify the company's current marketing goals, strategies, policies and programs and the extent to which they are consistent with the company's message, goals, strategies and policies and what is the level of the company's marketing performance as well as the company's status at both local and international markets and the extent of the competitive advantage achieved by the current marketing.

B- Auditing funding: The auditing of funding is one of the key elements that helps the company to ensure its financial independence and maintain its balance of work. An auditor should consider the company's current financial goals, strategies, policies and programs and their clarity and consistency with the company's internal and external environment. The degree of the company's success in performing the financial analysis and the trends shown by this analysis in addition to the financial trends of the company regarding its past and present performance as well as the effect on its future performance, and the company's current financial status and ensuring that it supports the company's future strategic decisions and offering a competitive advantage (Kusano & Sakuma, 2019).

C- Research and development auditing: The Research & Development function is one of the core functions that develops knowledge for management and staff, designing new products, and developing existing products. Therefore, R&D audit ensures the achievement of the company's competitive advantage (Stanworth et al, 2019). The current development of the company, its visibility and its inference through performance or budgets, and the role of technology in the company's performance (Agevall et al, 2018), focuses on the extent to which the mix of basic and applied engineering research is compatible with the mission and strategies of the company. And of the extent provided by the research and development of a competitive advantage for the company and what is the return you get the company through its investment in research and development (Klychova et al, 2017).

D- Auditing of operations and physical distribution: through the audit of this element, the efficiency and effectiveness of production machines, the compatibility of company policies and strategies with manufacturing programs and the ability of the company to provide raw materials at low cost (Li et al, 2019). To know the extent to which process managers use acceptable methods and tools to evaluate and develop current performance through cost systems, quality control and inventory control

management, total quality management programs and technical programs to improve production efficiency, and advanced information systems in the field of physical production and distribution. Finally, the role of operations manager and physical distribution in the strategic management process (Teoh et al, 2017, Concha et al, 2017).

E- Human Resources Management Audit: Strategic audit aims to measure the effectiveness of HR in relation to the needs of other departments, and the extent to which HR strategy contributes to the organization's mission and objectives (Brierley & Gwilliam, 2017). Strategic audit seeks to answer this set of questions, the most important of which is to know the extent to which the company's human resources managers use accepted concepts, methods and tools to evaluate and develop the company's performance such as job analysis and evaluation programs and performance evaluation systems (Carcello et al., 2018). The extent of continuous updating of job descriptions, training programs and the role of the HR manager in the strategic management process (Roussy et al, 2018).

F- Audit of Information Systems: The audit and control of information systems is a complex task that requires a thorough knowledge of the bases of the audit of information systems in order to know many points, including to identify the allocation of resources available to the company and knowledge of continuous progress in the field of information technology as well as knowledge of the possibility of penetrating the system Information and other data that help the company achieve its strategic plans (Steinbart et al, 2018). This component seeks to answer a series of questions, the most important of which is to know the extent to which the managers of information systems in the company use concepts, methods and tools to evaluate and develop the performance of the company such as information analysis programs, decision support systems and information networks (Axelsen et al, 201117), and to identify the degree of difficulty in Global access to information, and the role of the Director of Information Systems in the strategic management process (Katamba et al, 2017).

### **3<sup>rd</sup> Stage: Situation analysis and assessment of strategic alternatives:**

This stage is represented by analyzing the strategic factors and the strategic option as follows (Phadermrod et al, 2019):

A- Analyzing the strategic factors: represented by each of situation analysis and reviewing the message and goals (Morris&Tronnes, 2018) . The situation analysis includes analyzing the strategic situation and the most important external and internal factors ( strength and weakness factors , opportunities and threats ) that affect the company's current and future performance (Agarwal& Somaini, 2018). For reviewing the message and goals, this expresses the company's message which is achieved by drawing goals to be attained at the short or long term (Boon et al, 2018).

B- Auditing strategic alternatives and strategic option: strategic management is interested in looking for options that lead to obtaining the alternative which achieves the goals the company seeks to achieve so the strategic alternatives should be audited

(Li et al , 2017). Strategic auditing contributes in refraining cost and differentiation such as strategies of business, stability, development, shrinking as strategies for company (Ansoff et al, 2018). Strategic option auditing contributes in auditing the available strategic alternatives and their appropriateness for the company , business and functions and also contributes in identifying the justifications of the strategic option regarding the ability to solve problems at both the short and long terms (Williams et al , 2017 ).

#### **4<sup>th</sup> Stage: implementing the strategy auditing and control.**

The implementation of the strategy includes a group of questions about the policies and implementation programs for the strategy to ensure its efficiency (Powell et al , 2017) , these questions include : what are the policies that should be drawn or modified to lead to an efficient implementation for the strategy and the extent of the policies and goals consistency with the management behaviors , the extent to which these policies have the main structures for strategy implementation, what are the extent of these policies assistance in directing the company's activity toward the new strategic direction (McDavid et al , 2018 ) as well as what are the programs that achieve performance efficiency to serve the company's strategy and who is the responsible for these programs (Höglund et al , 2018). The purpose of strategic auditing and control is to ensure that the strategies that have been implemented have contributed in achieving the message and the goals of the facility (Fernandez et al , 2019) . The strategic control auditing focuses on the ability of the information system to offer the information related to the activities of the strategy implementation , actual performance level and determining the performance outcomes and classifying them based on the activity . units. Projects and functions' aspects and fields (Alasseri et al , 2017) , it also focuses on information reliability in light of the control and evaluation system and the extent of using control measures successfully to ensure that performance is based on the implementation plan and the extent of the performance measures' objectivity and fairness (Forman et al, 2017 ) .

### **6. Performance Improvement and its Relationship with Strategic Audit:**

#### **6.1 Performane Improvement Concept:**

The concept of performance is a broad, comprehensive and important concept for any company. Although there have been many studies on performance and evaluation, no specific concept of performance has been found (Yogi & Kotzab, 2019). Stiglitz & Fitoussi (2017) see that this is due to the different criteria and measures used for studying performance and assessing it and this difference in turn is due to the variant objectives and trends among researchers in their studies where the criteria of classifying performance are variant. Philips et al (2019) define performance as the company's ability to survive and to achieve balance between shareholders and employees , while Derindag and Canakci ( 2019) define performance improvement as a reflection for the way of using financial resources and human resources and exploiting them efficiently in a way that makes them able to achieve goals.

Improving the performance of a company is represented by its ability to implement its strategy and enable it to face competitive forces. The source of these activities is automated, physical or “joint.” (Kanapathy et al, 2017) argues that the basic principles of performance improvement are increased awareness of the fulfillment of customer needs. Expectations, focus on systems, processes and remove barriers and encourage the participation of all employees.

## **6.2 Performance Components**

The term performance consists of two main elements: effectiveness and efficiency, and are often used to denote the concept of performance, that is, a company that is characterized by performance combines effectiveness and efficiency (Villajos et al, 2019).

### **A - Effectiveness**

Effectiveness is expressed at the degree of achievement of goals and shared through the relationship between actual outputs and estimated outputs as more and more outputs contribute to the achievement of goals the company is more effective (Wijesiri et al, 2019). Spyropoulou et al (2018) defined effectiveness as the company's ability to achieve its strategic objectives of growth and sales and maximize its market share compared to competition .

### **B - Efficiency**

Efficiency is the ability to choose the route that achieves the best result using the possibilities available, or with the latest access to the greatest goal the company seeks to achieve the greatest profitability available (Govindan et al, 2017). Efficiency is defined as the optimal use of the productive resources available to the company and is primarily related to the cost element and the relationship between inputs and outputs and is therefore an element of efficiency (Nattasha et al, 2017).

## **6.3 Factors Affecting Performance:**

There are several factors affect companies' performance and the process of performance evaluation some of which are internal factors and some are external ones so some of them are controlable and some are not (Gupta et al ,2017). The internal factors includes the organizational structure, company's culture, technological development, company's resources, corporate resources, strategic financial factors and leadership (Taştan & Davoudi, 2017). External factors include (customers, competitors, political and government factors, economic factors, social and cultural factors) (Rezvani & Khosravi, 2019).

## **6.4 Dimensions of Performance:**

Performance is related to several economic, organizational, social and environmental dimensions as it is affected by the emergent change at modern companies level (Mallouh & Tahtamouni, 2018). These dimensions are related to several influence parties which are called stakeholders or actors such as customers, suppliers, creditors, lenders and workers. The dimensions of performance are represented by (Caputo& Tron, 2016, Akanmu et al , 2017 ):

A- The economic dimension: this dimension includes the company's financial performance which determines its profitability and the extent of market share expansion and the competitive performance which measures the company's ability to achieve a competitive advantage compared to its competitors.

B- Organizational dimension: This dimension relates to the internal performance of the company, as it reflects how the company uses its material and human resources and investing them in a way that makes it able to achieve its objectives..

C- Social dimension: This dimension has attracted interest with the emergence of new management concepts such as corporate social responsibility which seeks to improve the social performance of workers and intellectual capital which is no less important than its financial and material resources (Michalski et al, 2018).

D - Environmental dimension:

This dimension is one of the new dimensions of performance and it emerged with the social dimension and recently has been separated from it. It is a part of the corporate social responsibility (Janker et al, 2019), and the environmental performance of companies emerged and increased with the progress of industry and the use of modern machinery. Outstanding environmental performance has become an important entry point for competitive advantage and in line with the requirements of sustainable development, companies strive for excellence, leadership and market positioning must build a system to develop and regulate their environmental performance (Arda et al & 2019). Fuzi et al,( 2019) define environmental performance is a measurable outcome of an environmental management system, which is based on the company's environmental policy and objectives.

### **7. The Relationship Between Strategic Audit and Performance Improvement:**

Strategic audit has an effective role in companies' performance improvement through managing the company's risks and defining errors (Ishak et al , 2019) as it offers managers information about the changes and developments occurring within the company's economic, competitive, commercial, political, legislative, social and cultural environment to assist them for making the appropriate decisions (Khelil et al , 2018). Strategic audit plays a basic role in investigating errors and solving them as follows (Michalski et al , 2018, García et al , 2017):

A- Analyzing the internal environment: auditing and analyzing the company's internal environment is the appropriate base for how to identify risks and treating them by the workers and employees and how to manage these risks.

B- Sitting goals: The process of setting and determining goals and is carried out by the senior management of the company, where the strategic audit is able to identify potential events that affect its strategy, and therefore includes the process of risk management and strategic audit supports objectives that in turn support the company's mission and consistent with the level of risk (Tron et al, 2017).

C- Identifying and distinguishing action: Internal or external events affect the achievement of the company's objectives. The strategic audit contributes to the distinction between risks and opportunities and its primary task is to collect and use

information in the prediction process to seize opportunities and avoid threats (Pazzi & Pellicciari, 2017).

D- Risk assessment: Strategic audit contributes to the assessment of current and potential hazards, taking into account available possibilities and their impact as a basis for determining how current risks are managed on clear bases and rules .

).(Giannakis et al, 2019

E-Control: The strategic audit seeks to develop the control system and to make the necessary adjustments to it to keep it up to date with developments in the company's environment to face the risks that are a repetitive and multi-directional process. Company activities and risk response (Garza et al, 2017).

F- Response: Strategic audit helps senior management to choose appropriate responses to risk (avoidance, acceptance, reduction), and helps prioritize risks (Gupta et al, 2019).

## **8. Hypotheses :**

Strategic audit is the starting point and the most important type of audit types as financial audit controls expenditures and corrects supplies' instruction and rationalizes expenditures, and there is also the quality audit which ensures the reduction of waste and optimal use of resources and improve productivity (Etchings, 2017). Hence emerges the role of strategic auditing, which contributes to the evaluation of the strategic direction of the company and ensures that operational processes are performed effectively, as well as the optimal use of resources, which enhances the rationalization of expenses contributes to improve the overall performance of companies (Akumu, 2018). Given the importance of strategic audit and its effective role in instructing the company's strategy as well as the importance of the overall performance of companies, the problem of this research can be formulated in the extent of the contribution of strategic audit in improving the performance of the industrial company and in order to familiarize the subject with its various aspects and briefing from multiple angles, some questions were raised and included : What is the relationship between strategic auditing and performance?, what is the motivation that makes industrial companies to implement strategic auditing? To what extent does strategic auditing contribute to the desired results that the company seeks to achieve? To answer these questions and accurately address the research variables, the following hypotheses were formulated:

**H1: Industrial companies operating in Basra Governorate in Iraq use strategic auditing.**

**H2: Strategic audit contributes in improving the level of overall performance in industrial companies operating in the governorate of Basra in Iraq.**

**The first sub-hypothesis: Strategic audit contributes in improving the level of economic performance in the industrial companies operating in the governorate of Basra in Iraq.**

**The second sub-hypothesis: Strategic audit contributes to improving the level of organizational performance in the industrial companies operating in Basra province in Iraq .**

**Third sub-hypothesis: Strategic auditing contributes in improving social performance in the industrial companies operating in Basra governorate in Iraq.**

**The fourth sub-hypothesis: Strategic auditing contributes in improving the environmental performance in the industrial companies operating in Basra governorate in Iraq .**

## **9. Methodology**

### **9.1 Sample :**

The population of the study included a group of industrial companies operating in Basra governorate in Iraq and 128 questionnaires were distributed on employees in these companies and 119 ones were retrieved and valid for analysis with a response rate of (92.97%) which is an acceptable rate to generalize the results on the population as whole.

### **9.2 Data Collection:**

Questionnaire was utilized as a tool for data collection and this tool is one of the main tools for collecting the necessary data to achieve the goals of this research and hypotheses were tested using the SPSS software . the researchers developed the tool depending on the theoretical framework of the research and included 38 items. Response were scored using the Likert five scale to identify the participants' views . Each category of responses was given a score as follows : 5= strongly agree, 4= agree, 3= neutral, 2= disagree and 1= strongly disagree. The results were tested and analyzed based on the appropriate statistical methods to prove the research hypotheses.

## **10. Statistical Treatment:**

A number of statistical methods was used and utilized for the purpose of describing and analyzing the data of the study variables and testing the hypotheses, through the use of computer in the extraction of results, and through relying on the SPSS V.20 software and AMOS V. (20) where  $\alpha$  – Cronbach ' was used to measure the stability of the study tool and the extent to which similar results were achieved under similar conditions at all times, the mean and standard deviation were used to describe the variables, while the Pearson correlation coefficient was used to determine the direction of the relationship and the extent to which the results support the hypotheses.

## **11. Data analysis**

### **11.1 Reliability of the tool:**

Indicates ensuring the stability and reliability of the tool used for data collection , in other words, expresses the internal consistency in addition to reliability that indicates

the extent to which the test reveals similar results under similar conditions at various times (Zikmund et al., 2010 ). For the purpose of ascertaining the consistency and reliability of the tool of the current study , the Cronbach's Alpha coefficient was used to verify the "Internal Consistency" of the study variables as shown in Table (1) (Pallant, 2011 ) :

**Table (1): Tool Reliability**

Variables	Cronbach's Alpha	Reliability
Strategic audit	.865	Good reliability
Economic performance	.875	Good reliability
Organizational performance	.887	Good reliability
Social performance	.922	Good reliability
Environmental performance	.903	Good reliability
Performance	.858	Good reliability

### 11.2 Normal distribution:

Appropriate statistical methods are determined depending on the nature of the data distribution. If the distribution of data is normal, census statistics are used, while non-parameter statistics are used if the data do not follow the normal distribution (Zikmund, Babin, Carr, and Griffin, 2010). For this purpose, the Kolmogorov-Smirnov test was used to ensure the nature of the data. The distribution of the data is normal if the value of (Sig.) Of the calculated value of (Kolmogorov-Smirnov) is greater than the significance level used in the study (0.05) and it was greater than (0.05) and as shown in Table (2), this is evidence that the data was normally distributed naturally, and required the use of parameter methods.

**Table (2): Normal distribution test**

Variables	Strategic audit	Economic performance	Organizational performance	Social performance	Environmental performance	Performance
Test Statistic	.132	.122	.174	.113	.134	.143
Asymp. Sig. (2-tailed)	.066	.072	.086	.077	.096	.096

### 11.3 Descriptive statistics and correlation coefficient:

Descriptive statistics focus on processing and describing raw data and transforming them into totals and small numbers in a way that can draw conclusions and signals that can be generalized to the population. The average mean refers to the mean where



the data is centered, while the standard deviation refers to the degree of dispersion of data from its mean as shown in table (3) below:

Table 3: Descriptive statistics and correlation

Variables	Mean	Standard deviation	Strategic audit	Economic performance	Organizational performance	Social performance	Environmental performance	Performance
Strategic audit	3.14	.669	1			.		
Economic performance	2.95	.587	.573*	1				
Organizational performance	3.19	.623	.628*	.692**	1			
Social performance	2.95	.555	.339*	.445**	.543**	1		
Environmental performance	3.15	.596	.674*	.612**	.435**	.169	1	
Performance	3.06	.500	.664*	.676**	.639**	.644*	.560**	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Based on the table above, it can be seen that the means ranged from (3.19 to 2.95) which refers to a moderate or neutral degree of agreement on the study variables from the sample perspective, while the standard deviation was statistically at acceptable level. For the correlation between the variables and the dimensions they were all positive ranging between (average to strong) at the level of significant ( $p < 0.05$ ), except the relationship of social performance to environmental performance, there was no significant correlation between them. Finally, this provides initial support to the study hypotheses.

## 12. Testing the hypotheses:

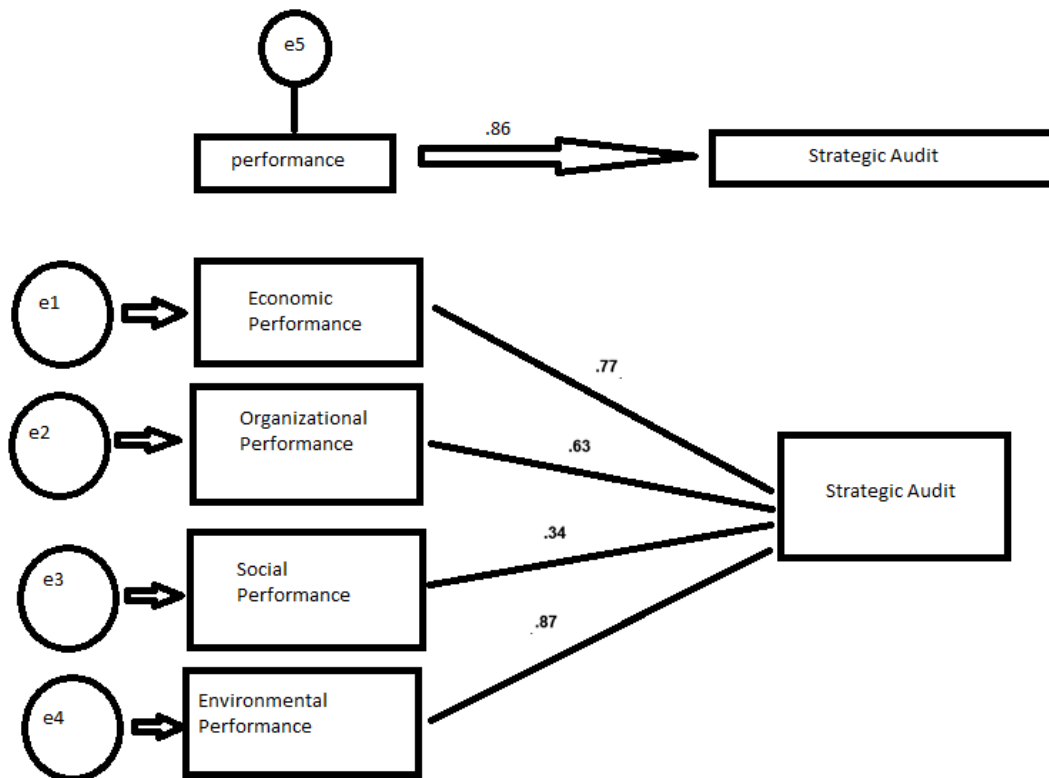
Because the current study model consists of one-dimensional independent variable (strategic audit) and a multi-dimensional dependent variable (performance), the hypotheses test was conducted through the path analysis in the Amos program, which enabled to test the independent variable on more than one dependent variable and this is not provided by regression analysis in SPSS. Table (4) and Figure (1) show the results of the main and sub hypothesis test as follows:

Table (4): Testing hypotheses

Hypotheses		Estimate	S.E.	C.R	p	Label
H1	Strategic audit → Performance	.864	.035	18.676	** *	Accepted

H1a	Strategic audit	Economic performance	.773	.051	13.250	** *	Accepted
H1b	Strategic audit	Organizational performance	.628	.067	8.755	** *	Accepted
H1c	Strategic audit	Social performance	.339	.072	3.917	** *	Accepted
H1d	Strategic audit	Environmental performance	.874	.053	19.492	** *	Accepted

Figure (1) : Testing hypotheses



Based on the results indicated in table (4), it can be seen that :

- 1 - There is a positive effective relationship between strategic audit and total performance ( H1:  $p < 0.01$  ).
- 2- There is a positive effective relationship between strategic audit and economic performance ( H1a:  $p < 0.01$  ).
- 3- There is a positive effective relationship between strategic audit and organizational performance ( H1b:  $p < 0.01$  ).

- 4- There is a positive effective relationship between strategic audit and social performance ( H1c:  $p < 0.01$  ).
- 5 - There is a positive effective relationship between strategic audit and environmental performance ( H1d:  $p < 0.01$  ).

### **13. Conclusions and Impacts:**

Based on the hypotheses testing, we can conclude the following:

A - Corporate strategic auditing will improve overall performance. By scrutinizing strategies during their implementation in general and in particular financial and accounting strategies, this will expose many of the pitfalls that occur and can not pay attention to them only through the conduct of strategic financial audits, which reveals many important things that contribute to the improvement of the overall performance of the company.

B - Strategic audit also contributes to the audit of the overall economic performance of companies, through the reports and feedback on profitability and market share and compared effectively with the planned for the purpose of ensuring the conduct of things as planned on the ground and address the problems that may occur and limit the achievement What was planned, this in turn will contribute to raising and improving the economic performance of the company.

C - Strategic auditing also contributes to improve the organizational performance of the company by exploring the problems and constraints that occur in the internal environment of the company or the incompatibility of internal factors with the requirements of the external environment, for example when it is discovered that the organizational structure or culture does not fit with the strategy that is working according to Through strategic audits, senior management will make some adjustments to the structure or intervene to modify some cultural aspects in order to enhance and improve organizational performance.

D - Strategic auditing also contributes to the improvement of social performance, through strategic audit may be discovered that the imbalance or problem lies in the failure of the company to respond to social requirements and needs, which greatly affects the profitability and market share of the company. By addressing the deficiencies and increasing the level of response to the social factors surrounding the company (through the strategic audit outputs) the level of social performance will be raised and therefore the overall performance of the company.

E - Finally, strategic audit also contributes to improving environmental performance. As the environmental factor is characterized by being of long-term impact and show its effects in the future or after long times, therefore, the strategic audit related to environmental impacts and aspects reveals many problems even before they occur or the impact of the effects and thus address and get rid of its negative effects in the medium and long term and to enhance the performance The company's environmental performance and thus the company's overall performance.

## **14. Limitations and future research**

In any study there are limitations and the limitations of this study pave the way for the purpose of future research , to conclude, the limitations and recommendations for future research are stated below :

A- The current study sample is limited to the industrial companies operating in Basra governorate and thus the inclusion of other companies in different sectors may contribute to more clear results, as well as the possibility of generalizing the results more widely. The study dealt with the case of a sample of individuals working in industrial companies in Iraq and was consisted of (119) workers, "therefore this is one of the determinants that lead to the risk of generalizing the results

B-The present study sought to clarify the importance of strategic audit as a comprehensive and integrated management system that reflects the strategic vision of the company and measures the extent to which it achieves its objectives and works to improve the various aspects of performance by focusing on a number of four variables (economic performance, organizational performance, improve social performance, improve the level of Environmental performance (based on the guidance of some researchers (Machfudiyanto et al, 2017). Thus, the current study model did not include some variables that contribute to the enrichment of the current study, for example, the addition of an interactive variable, which is the planning and monitoring of performance. Contributions on the importance of strategic audit in improving the economic performance of industrial companies, however, there are still topics that need to be explored which could constitute future research studies (for example, the role of strategic audit in decision-making activation, the role of strategic audit in risk management, the role of audit) Strategic building of the company's strategy, the impact of strategic audit in the detection and reduction of administrative and financial corruption.

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